

Dealing Between Domestic Policy and International Standard on Worker Welfare in MNC's Operation in Host Country: Case Study in PT. Betts Indonesia

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Abstract

Global capitalism argued that industrialization is a leading sector of growth and prosperity. State policy need to encourage foreign investment and multilateral trade system as the internationalization of economic liberalism. In developing country such as Indonesia, multinational corporation welcome as the government partner on development aimed to reduce unemployment and rise the market export commodities. Whereas, the structuralism accused the multinational corporation as the instrument of hegemon western country that bring the problems of worker welfare and environmental preservation. This paper would like to describe how the United States corporation – Betts Indonesia harmonize the international standard of worker welfare with the government rules of host country. Data and information obtained from library research and depth interviewed to management and worker of Betts Indonesia as the subject of research. It proved the liberal proposition that the corporation support the government rules on the program of worker welfare involve BPJS (Indonesian Social Insurance), the freedom of labor union, pension fee, the right of maternity, and the Corporate Social Responsibility project with PMI (Indonesian National Red Cross) in which the integration of international standard as the corporation own values ruined the claim of structuralism.

Keywords: foreign direct investment, multinational corporation, worker welfare

Introduction

The traditional approach of structuralism accused that the multinational corporation as the agent of capitalism serve the economic benefit to the 'have' rather than the grassroot society. The economic liberal through the regime of monetary and trade penetrate the 'free trade' regulations in which the developing countries as the basis of raw material and human resource signed it as the global production and huge market for western countries. Therefore, the developing country appear as the satellite for the industrial countries who belongs technology and money. As the political economic studies, this research would like to challenge the structuralism proposition in which the US corporation in Indonesia is welcomed as the partner of government to reduce unemployment and bring the advantage on the case of worker welfare.

Multinational corporation or transnational company is defined as “a company that has affiliates in a foreign country. The affiliates may be branches of the parent company, separately incorporated subsidiaries, or associates, with large minority shareholdings” (Baylis & Smith, 2001: 430). MNC notice as the actor of international relations whether some of literature of global political economy studies argue that the foreign investment influence the domestic structure of host countries. It has a power from money and technology that determine the policy and debate on the aspect of environmental health, worker welfare, and political election (Baylis & Smith, 2001; Blomström & Kokko, 1998; De Angelis & Harvie, 2008; Gao, 2005; Gilpin, 2001a; Haaland & Wooton, 2007; Kegley Jr. & Wittkopf, 1999; Krasner, 1976; Liu & Qiu, 2014; Loungani & Razin, 2001; Mallampally & Sauvart, 1999; Miles et al., 2002; Moosa, 2002; Oatley, 2004; Pandya, 2010; Porter & Brown, 1991; Robertson & Teitelbaum, 2011; Stopford, 1998).

In Indonesia, the existence of multinational corporations become the common phenomenon. Since the mega project of development in the era of President Soeharto, the people has been acknowledge the daily products come from foreign countries technology such as Japan, England, France, China, and United States. Those countries marked Indonesia as their huge market of their companies. Japan has been spoiled by the income from the automotive sales. The Japan market of motorbike and car dominate 70 percent of the whole sales. France owned the prominent mineral water of Indonesia named Aqua Danone. It is estimated that 7 from 10 Indonesian people consume Aqua. Unilever as the multinational company from England has more than 100 brand in this country. Moreover, China's companies have provided more than 200 commodities for Indonesia people. By the big population that reach almost 250 million people, Indonesia become the potential market and strategic place for the foreign investment. It is recognize several brand and factories involve Toyota, Coca-Cola, Otsuka, P&G, Garnier, Holcim, Bierdof, Philips, and others that operate in several industrial parks in Indonesia; Jakarta, Bogor, Depok, Tangerang, Bekasi, Karawang, Semarang, Ungaran, Sidoarjo, Mojokerto, Pasuruan, dan Gresik.

This paper describes the multinational corporation represent by Betts- Albea Groups perform as the government partner on development due to the objective to reduce unemployment and expand the market export of Indonesia. It analysis how the company integrate the international standard of multilateral trade and worker welfare that argued as the effort to strengthened the advantages for host country. The argumentation will explained as the two parts. First, Indonesian policy that encourage the foreign investment and second, the

company policy and operational system which comply with the international worker welfare standard.

Methods

This paper use qualitative research approach with case study at PT. Betts Indonesia located in Ngoro Industrial Park, East Java, Indonesia. The data and information obtained from observation through literature, documentation, and interview. It gained the data and information about the development of Indonesian worker welfare regulation from media and research publication. The argument is also supported by content analysis from document and draft comes from the company. The management and staff of PT. Betts Indonesia become respondents of research. There are five people in charge to be interviewed as the management of Betts Indonesia who have job position as Continuous Improvement Spv.; Quality Assurance Spv.; Senior Production Leader; Environment, Health, and Safety Spv.; and its officer. It questioning the company policy due to the right and obligation of the worker, and the policy adoption of Indonesian worker welfare Law (UU Ketenagakerjaan).

Liberalism and Structuralism Debate on the Roles of Multinational Corporation in Host Country

Liberal and structuralist theories have opposing viewpoints in view of international political economy. Liberal theory argues that the welfare of the individual will be obtained through a capitalist system that supports the enactment of free trade and open markets. The capitalist system is oriented to the money, the accumulation of capital, long-term investment and internalization of values or culture to legitimize the market (consumerism). Meanwhile, the structuralists believe capitalism will only build economic inequality. In a study of political economy, liberalism and structuralism debate the relationship between state and market power in the international system.

Liberalism philosophically glorify 'freedom' and 'individual choice' in all aspects of life, including political and economic. In economic activity, a liberal approach believes prosperity will be achieved when individuals are free to manage the factors of production which ownership is protected by law (the rule of law). The liberal thinkers assume the excessive power is being accumulated to institutions (the state) would be likely to be abused and build represif conditions that prevent the community for the creation of resources optimally.

Liberal believed the economic power capable of influencing political units, which made a political instrument to achieve economic interests. Meanwhile, the structuralists criticize liberal economic system (capitalism) only in favor of the interests of the welfare of investors and subjecting the fate of marginalized people (workers / laborers). According to the liberal, the state's role is to distribute such power in democratic governance, where people have the discretion to determine the economic activities based systems market (market). The market is considered the ideal institution to accommodate the interests and tastes of the individual (satisfaction). Freedom to trade possessed by economic actors will have an impact on the achievement of satisfaction of each party. A meeting between producer and consumer satisfaction momentum in the market price formation that should not involve state intervention. Like it or not, the international trading system to win the conception of capitalism that glorifies equal opportunities in the economy and the protection of the country against the assets of production.

The classical liberal economic thinkers establish a multinational company as a global actor that encourage the production and realization of conception 'division of labor'. The corporation as an agent of global economic growth through mass productions. Assumed, the greater the value of national production, the higher the income of the state, the broader effect of (policy) of the country in international politics. The activities of multinational corporations supported by the free trade system to allow direct investment in developing countries. The multinational company is regarded as the motor of economic growth that ensures the productivity of a country based on the volume and value of exports -division of labor. The doctrine of the liberals on the free market system conceived by classical economic thinkers; Adam Smith and David Ricardo. International trade is based on the principle of absolute superiority Smith -absolute advantage- namely the countries that often produces a commodity by a certain number of resources will determine the international trade of these commodities. Smith stated that the better we buy commodities from other countries that cost less than we produce these commodities in their own country with relatively high costs (Baylis & Smith, 2001; Gilpin, 2001b; *Global Political Economy*, 2005; Kegley Jr. & Wittkopf, 1999; Krasner, 1976; Oatley, 2004)

According to Smith in "The Wealth of Nations" (1776), the key to prosperity and power of the state is economic growth. In essence, the international trade to run when a country can meet the demand for the needs of other countries. Schumacher said that the concept of 'division of labor' Smith encouraged the development of quantitative and qualitative production. This means when the output is enhanced, stimulated technological

innovation, productivity is increased, it will generate economic growth. The concept of 'division of labor' is closely related to productivity (output). Output is highly dependent on how large the market. The larger the market share, the greater the revenue of the country. Thus, the national welfare are increasing too. According to Smith, there are at least 4 (four) that the benefits of international trade, among others, 1) the fulfilment of the domestic need, 2) increasing the productivity of society based on the spirit of competition, 3) dealing with the excess production, and 4) ensure the well-being of individuals although it is not always equal (Gilpin, 2001b).

The idea of Smith was supported by Ricardo, in which international trade occurs when there are differences in comparative advantages between countries. The theory of comparative advantage will be achieved when a country is able to produce more and at a lower cost than other countries through commodities that have comparative advantages (Mas'ood, 1990). Adam Smith and David Ricardo filed a form of free trade which aims to improve efficiency and benefit all parties involved. According to Smith, the state should not intervene in economic life. The state should let the market run its mechanism because what is good for individuals, is also good for society in general (*laissez-faire, laissez-passer*). Community will move reach his own needs assisted by the 'hands that are not seen' (invisible hand). Trade not only promises prosperity but also an instrument in bringing about peace in the world (Winarno, 2010). This encourages the growth of multinational corporations as agents of liberal economy in various regions of the world. Meanwhile, structuralism represented by 'Dependencia Theory' and 'World-System Theory' to understand the capitalist system will not be able to fulfill his promise in the welfare of individuals and has the potential to cause conflict due to excessive competition and efficiency. Dependencia theory states that the liberal economic system formed dependency countries of production factors (periphery) to countries with capital / technology (core / capitalist). World systems theory to analyze the differences in the condition of the two sides are positioned in the 'division of labor', in which the financiers become industrialized countries with advanced technology and manufacturing exports. Meanwhile, periphery countries have economic conditions that are less fortunate with labor-based production activities (labor). The exports generated depends on the raw materials and agricultural commodities. Some experts structuralists like Paul Prebisch, Paul Baran, Andre Gunder Frank and Immanuel Wallerstein agreed that capitalism is sourced from the thoughts of classical economics will eventually form a hierarchy in the international system dominated by the elements of exploitation of one party to the other through activities trade and production (Kegley Jr. & Wittkopf, 1999).

The Dealing of between Company Standard and Indonesia Labor Law

It is undeniable that direct investment of multinational companies in a country gives hope will open wider employment opportunities and increased productivity in the country. With the increasing number of activities of multinational companies, automated trading volume (GDP) of a country will increase and is believed to help reduce unemployment and poverty. Liberal economic perspective this makes the state needs to provide the rule of law and protection of the rights of individual economic actors both producers, consumers, and labor in response to the multilateral trading system. The Indonesian government to be one of the case studies in clarifying some of the government's policy to protect the interests of investors and workers through the establishment of minimum wage City / Regency (UMK) and the rules of the Labor Law, and health facilities (BPJS).

Momentum decentralization (Local Autonomy) in Indonesia requires strengthening the capacity of good governance to explore the potential of the area according to the characteristics of each in order to achieve the welfare of society. Multi-stakeholder co-operation between government, private sector and civil society are needed to manage available resources may be beneficial to improve the productivity of society and achieving national economic growth target. In the era of globalization, this vision will be difficult to achieve without investing in the business sector-based industrial and international markets. The manufacturing industry is believed to increase employment by activity-based global production and export orientation (Candau, 2008; Grindle, 2004; Maiti & Mukherjee, 2013; Morrissey & Udomkerdmongkol, 2012; Weiss, 2000). Indonesia affected by the free trade agreement and should participate in international trading activities so as not to run over globalization. This can be illustrated in foreign investment policies and development facilities in the industrial area of various regions in Indonesia, one of them in the province of East Java

East Java has a strategic position in the industry because it is flanked by two large provinces, namely Central Java, and Bali. In addition, East Java has potential in agriculture, plantations, commerce, horticulture, fisheries and other energy resources as capital for industrialization. East Java's population amounted to 37, 29 million or 0, 84% of the total national population. East Java administrative area of 47 154 km², is composed of 29 districts and 9 Cities. With the potential of natural resources and human resources, economic growth in East Java during the first semester of 2012 reached 7, 20%. East Java Provincial Government declared an increase in the Company's investment of foreign capital reached 439% at the end of the second quarter of 2013. Previously, the data BPM East Java province shows the value of foreign investment in the first quarter 2013 amounted to Rp 7.09 trillion.

Meanwhile, Domestic Investment (DCI) and Non-Facility (SMEs), their respective amounts to Rp 9.01 trillion and Rp 15.08 trillion. Thus, the total value of investment in East Java in the first quarter reached Rp 31.18 trillion. (East Java provincial government in 2013)

Almost every year the problem of rising MSE come into political discussions and it create social reactions and movement. For example, at the end of 2012 there were massive workers' demonstration in East Java, where unions demand higher MSEs. The workers argued that the income provided the company has not comparable with the hope of improving the lives of workers. Whereas, the majority of people working in manufacturing companies in industrial parks are believed they have contributed much on Indonesian economy. The local governments continue to accommodate the public interest by increasing the industrial workers SME every year although the margin is not the same for each city / district. This can be observed on the scale of MSEs in East Java Governor Regulation No. 72 Year 2012 on minimum wage districts / cities in East Java in 2013. (See Table 1.1.)

Tabel 1: The Industrial Park and the value of SME in East Java

| Industrial Park | Region | SME 2013 |
|---|---------------------|--------------|
| Surabaya Industrial Estate Rungkut (SIER) | Surabaya | Rp 1.740.000 |
| Pasuruan Industrial Estate Rembang (PIER) | Kabupaten Pasuruan | Rp 1.720.000 |
| Maspion Industrial Estate | Kabupaten Gresik | Rp 1.740.000 |
| Gresik Industrial Estate (KIG) | Kabupaten Gresik | Rp 1.740.000 |
| Ngoro Industri Persada (NIP) | Kabupaten Mojokerto | Rp 1.700.000 |

Related to the analysis on bargaining position of developing countries depart from the understanding that, *first*, an industrial area into a motor of economic growth, one of them in East Java. *Secondly*, the province has an industrial area usually owned SME higher compared to other regions in Indonesia, therefore the people wondering by working in manufacturing industries they will live in prosperity. *Third*, the government and the investors in the industrial area were able to keep the investment climate remains conduciveness by accommodating the interests of working people through task of Wage Council (Dewan Pengupahan).

Indonesian government's efforts in line with the principles of 'Public Corporate Governance' recommended by the Organisation for Economic Cooperation and Development (OECD) related how the state is able to increase investment and productivity of society. In 1989, the OECD published a "Policy Statement on Development Cooperation in the 1990s"

in which this policy pays special attention to the model of sustainable development. There are four approaches recommended by the OECD, *firstly*, investments aimed at improving aspects of human resources through education, training, food security, and health services, including the eradication of infectious diseases. *Second*, the investment requires the strengthening of the political aspects, including governance and the rule of law that guarantees the implementation of democracy and human rights. *Thirdly*, investments geared to increasing the effectiveness of local governments, NGOs, and the private sector / business. *Finally*, the investment is intended to provide access to a wider market and competitive (Kusumaningrum, 2014).

The interests of both countries and economic operators, employers and workers are accommodated by a government agency acting as Wage Council. Based on Presidential Decree No. 107 of 2004, the Wage Council is an institution composed of government (Ministry of Labor), organizations / associations of employers, and workers / unions are at each level of government, whether at the national, provincial, and municipal / district. This tripartite body function is to provide advice and judgment to the government on wage policy formulation and development of the wage system. Every year in coordination Wage Council to formulate minimum wage workers under a decent standard of quality of life in Indonesia.

Legal protection and welfare of workers in Indonesia are also set by the Labor Law. All employers both companies in the domestic and foreign capital companies are required to meet this condition. The government policy provisions can be illustrated through policy practices of multinational companies PT. Betts Indonesia in the area of Ngoro Industrial Persada (NIP). PT. Betts Indonesia was established in 1993. The existing production facilities covering an area of 3466 m³ on a land area of 16,000 m³ and a branch of the group Betts England. Betts other companies located around the world including in the United States, Russia, Poland, India, China and Brazil. The company is based industrial packaging and exports its products from Indonesia to several countries such as Korea, Malaysia, Senegal, Vietnam, and the Philippines. According to data from the QA SPV. PT. Betts Indonesia (2016), the number of workers in Betts amounted to 448 permanent and contract employees, the remaining 40 employees daily. The scope of market access the company covers 75% of Indonesian domestic sales and 25% of export destination.

Tabel 2: the Revenue of PT. Betts Indonesia

| Total Sales (IDR) | Jan-16 | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 26.319.167.941,00 | 30.779.378.509,00 | 34.494.572.621,00 | 33.550.363.223,00 | 31.268.969.468,00 | 27.490.181.560,00 |

Source: QA Spv. PT Betts Indonesia 2016

PT. Betts Indonesia supply domestic needs of multinational companies such as Unilever Indonesia, L'Oreal Indonesia, Beiersdorf Indonesia, Multi Elegant Cosmetic, Cussons, Triple Ace, Borobudur herbal medicine industry, etc. Meanwhile, some customers are multinational companies abroad, among others, L'oreal egypt, Unilever Philippines, Malaysia MSSB, SCD Africa, LG Korea, Aekyung Korea, Amore Pacific Korea, etc. Revenue PT. Betts Indonesia in June 2016 is estimated to reach Rp 27.490.181.560. Since 2005, PT. Betts Indonesia has had a book collective labor agreement (CLA) to ensure good cooperation between employers and employees. In relation to compliance with labor laws, PT. Betts Indonesia has had unions (FSPSI) registered nationally with unions Indonesia. Companies and unions carry out deliberations regarding changes to the agreement between both parties in accordance with Article 4 point 4 on page 22 of the CLA. Unions with corporate management create "bipartheid forum" are regularly meeting to meet the interests of the company and its employees.

The CLA book refers to Law No. 13 of 2003 on manpower. It contained more or less the same as the bill that includes obligations of workers, rights of labor (wages; overtime; special leave: marriage, death of family members, menstruation, circumcision, etc., leave public employees as much as 12 days in a year; pension funds ; etc.). This collective labor agreement contained in the pocket book CLA updated regularly every period.

As the US investment in Indonesia, PT. Betts support government policy related to the National Welfare Assurance program (JKN). In accordance with the contents of book Cooperation Agreement between PT. Betts Indonesia with labor unions of Chemical, Energy, and Mining Workers Union Indonesia period 2014-2016 in chapter 36 page 51, the Company in accordance with the Laws No. 3 1992, registering all workers participated in Social Security Workers (Jamsostek). There are some Workers' Social Security Assurance include: a.) Work Accident Insurance (JKK), b) Life Insurance (JK), c.) The Old Age Security, and d.) Health Insurance (JPK). Companies bear the monthly fee for the participation of workers in the social security program, except JHT which are shared between employers and employees

with the following provisions: a.) 3.7% x basic salary paid by the Company, and b.) 2% x basic salary borne Workers.

In interviews with the QA Spv. of Betts Indonesia (2016), since the change in government policy that integrates with the policy of the Social Security program (JKN), the company also supported the implementation of the program BPJS. In BPJS Health program, Betts employees enrolled in the Health Care Facilities (Faskes) Class 1. These funds are obtained from employees' salaries by 1%, the rest is paid by the company in accordance with government regulations. Health BPJS given to all employees and their families. Based BPJS Employment program, Betts employees enrolled in the Old Age Security program (JHT) and pensions (JP). The funds obtained from the salaries of employees by 1% (to JP) and 2% (for JHT), the rest is paid by the company. Besides BPJS Health, employees of PT. Betts Indonesia obtain additional health insurance. The company cooperates with Central Asia Raya (CAR) where each worker and family members can seek treatment at all health centers in collaboration with the company CAR with the claims system.

In an effort to provide a positive image of multinational companies in Indonesia, PT. Betts Indonesia in 2005 already got ISO 9001: 2000 award certification from SAI GLOBAL. In 2009 already switched to a version of ISO 9001: 2008. Each year surveillance audit conducted by SAI Global to check the consistency of the implementation of the enterprise management system including the issue of quality and safety standards, professional management, and employment guarantee issues (welfare workers).

Based on the interviews, PT. Betts Indonesia received certification from the Ministry of Labor of the Republic of Indonesia concerning the management system of health and safety (SMK3) in 2015. In addition, the company has established good cooperation with PMI Mojokerto for the procurement of blood transfusion activities that are routinely carried out by employees of PT. Betts Indonesia. It is a part of CSR implementation program. Specifically for female employees have been provided in the lactation corner areas of the company as a form of implementation of Government Regulation No. 33 Year 2012 on Exclusive Breastfeeding. The company has shown the commitment to the right of maternity and reproduction health. Thus, by this explanation it believe that PT. Betts Indonesia is able to be a partner of local government in realizing economic growth and the welfare of workers.

Conclusion

Multinational companies are playing a key roles in mobilization of worker and capital through global production activities. It is also promising transfer of technology from

the developed countries to the host countries. Thus, through the concept of 'division of labor' and 'comparative advantage' of a system of free trade, the common prosperity is expected to be achieved. As we know, multilateral trade system is going fastly. Like it or not, liberal economy has dominated the international political-economic system. Based on the structuralist debate, developing countries should be introspective and to formulate policies related to trade foreign direct investment (FDI), which is able to maintain the stability of the investment climate but still prioritize the welfare of the community.

This paper has been described how the US investment in Indonesia through the manufacturing industry named PT. Betts Indonesia come to be the partner of local government due to expanding the export market and guarantee the worker welfare. The company has been obey to the national policy on the Law of Labor and strengthened the worker welfare by the adoption of international standard as the company image as the multinational corporation.

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